

PROPERTY OF  
WASHINGTON UNIVERSITY LIBRARY  
RECEIVED MAR 10 1945

# The American Observer

*A free, virtuous, and enlightened people must know well the great principles and causes on which their happiness depends.—James Monroe*

VOLUME XIV, NUMBER 24

WASHINGTON, D. C.

MARCH 12, 1945

## Mexico—Our Neighbor and Ally

*In compliance with the War Production Board's program of paper conservation, we are obliged to reduce the size of this issue of THE AMERICAN OBSERVER to four pages. Our next issue will appear with the normal eight pages and regular features.*

LAST week we discussed the Inter-American Conference which was held in Mexico City. We did not dwell on the problems of individual countries but instead surveyed some of the issues and questions of common interest to all Latin America and the United States. During the remainder of the school year, we shall devote our attention to a number of the larger countries to the south of us, concentrating on their specific problems and their relations with us.

In this article, we shall deal with the nation which was host to the recent conference of American republics—Mexico. We are fortunate in having better relations with Mexico today than we have had in many years. Our two countries are on the friendliest of terms and are making plans for close cooperation after the war. Before discussing relations between Mexico and the United States, however, let us get a brief glimpse of that country and some of its problems.

The land area of Mexico is about a fourth as large as that of our country. At one time it was about the same as ours, but Mexico lost huge regions to us last century, including all or most of such states as California, Texas, Arizona, and New Mexico.

Most of Mexico consists of high mountain ranges and plateaus. The Sierra Madre Mountains, a continuation of our Rockies, covers a large area of that land.

The majority of Mexicans lives in the "high central region." The climate, for the most part, is more temperate in this area than in the rest of Mexico. The northern part of the country, because of its great elevation, is cold much of the year.

Mexico has all types of land, from deserts to fertile valleys, and a variety of climate, from tropical to extreme coldness, depending on the elevation and the section of the country. Only a small portion of Mexican soil, however, is naturally suitable for cultivation, because of the mountains, extremes in weather, lack of rainfall, and other unfavorable conditions. At the present time, only 3 per cent of the total land area of Mexico is under cultivation.

Despite the pitifully small amount of land in use for farming purposes, the large majority of Mexico's 20,000,000 inhabitants depend on the soil for their livelihood. Millions of them barely eke out an existence. Disease is rampant, and the death rate is exceedingly high.

Mexico has recently made considerable progress in developing her industries, but she is still lagging far behind in this respect, as may be seen by the fact that there are only about 225,000 industrial workers in that

country. The main industrial development is centered upon such cities as Monterrey, Vera Cruz, Guadalajara, and Mexico City. Small industries are being developed in many of the smaller cities and towns.

Few countries of similar size possess greater mineral wealth than does Mexico. In addition to her rich oil fields, she produces 30 per cent of the world's silver, 16 per cent of its mercury, 30 per cent of its antimony, 11 per cent

as Russian life has been changed by the Communist upheaval, there has been a violent struggle in Mexico to break with the past.

For one thing, the Mexicans have attempted to free their country of foreign control. Under the Diaz dictatorship, which was overthrown in 1910, foreign interests were permitted to develop Mexico's mineral wealth on a large scale. They took most of their profits out of the country, however,

Today, as a result of government action in breaking up estates and dividing the land among Mexican farmers, less than 40 per cent of the farmers are landless. The government has been encouraging farm cooperatives rather than individual farms, for it feels that greater progress can be made if the farmers pool their efforts, if they buy machinery and tools in common, and adopt modern, large-scale farming methods. The farm cooperatives receive financial assistance and expert agricultural advice from the government.

These are some of the major reform features of the Mexican revolutionary movement. The government has also supported and aided strong labor unions in the effort to improve the lot of industrial workers.

In carrying out this program, the radical leaders have stirred widespread conflict among the Mexican people. Perhaps the greatest opposition has been against the anti-church activities. The government has taken over all church properties except the buildings themselves, and has decreed that no religious schools may operate. It is generally agreed that the anti-religious acts are less severe now than they were some years ago, but religious groups are still highly dissatisfied with existing conditions.

Such, in brief, are some of the facts about Mexico and her problems. If that country is to develop and prosper after the war, it will need more and more modern farming equipment and industrial machinery. The Mexican people will have to become increasingly better educated. Vast irrigation projects will have to be launched in order to provide much more farming land. New railways and highways will have to be constructed in order to knit the country together, for lack of transportation is one of the most serious problems at present.

Officials of our government have been talking and planning with Mexican leaders concerning ways our country can help Mexico develop along these lines after the war. They have also been studying ways in which Mexico can find postwar foreign markets for the mineral products which we have encouraged her to turn out in much greater quantities during the war.

Mexico has been a loyal friend of the United States in the struggle against fascism. There is good reason to believe that if we adopt an unselfish, though practical, political and economic policy toward her after the war, she will be a friend upon whom we can depend in case of future conflict in this hemisphere or elsewhere.

The Mexican people themselves face the future with confidence. Though the road ahead will be long and difficult, they take satisfaction in the progress that has already been made. More than ever before they have developed a national consciousness and a determination to strengthen their country after the war.



Though poverty is widespread throughout Mexico, the people are struggling to raise their living standards

of its lead ore, 8 per cent of its zinc, 6 per cent of its copper, 20 per cent of its gold. Many other minerals are produced in sizeable quantities.

Spanish is the official language of Mexico, but the Indian influence in that country is far greater than the Spanish. It is estimated that 55 per cent of the people are of mixed Indian and white blood. They are known as *mestizos*. Some 30 per cent of the population is of pure Indian blood, and 15 per cent is pure white (mostly Spanish).

The large majority of Mexican people are exceedingly poor. It is roughly estimated that the wealth per person in that country is about \$370, whereas it is about seven times higher than that in the United States.

Approximately 90 out of every 100 Mexicans are Catholics. As a matter of fact, the large majority of all Latin Americans belong to the Catholic Church.

While considerable educational progress has been made by Mexico in recent years, 45 per cent of the population is still unable to read or write. The majority of younger people, however, are now attending school.

Mexico has been passing through a revolutionary period since 1910. Although Mexican life has not been changed as much by this revolution

and did very little to improve working and living standards of the Mexican people. In fact, it is claimed, they did everything they could to keep wages down and to keep the people in poverty.

At any rate, Mexican governments in recent years have taken drastic steps to strip foreign interest of their control over the mineral wealth of that country. Their methods in accomplishing this aim have stirred bitter criticism among the foreign industrial groups involved, including American interests. More recently, however, the Mexicans have attempted to make settlements with foreigners on a more business-like basis, and improved relations have resulted.

Another drastic reform which has been undertaken by the Mexican radical groups is that of dividing the land. In the days of the Diaz dictatorship, 90 per cent of the Mexican people did not possess any land at all. Wealthy Spaniards owned great estates, or *haciendas*. Sumner Welles, in his book, *An Intelligent American's Guide to the Peace*, describes these estates as follows:

"With an average size of 8,000 acres (though some were larger than 50,000 acres), the *hacienda* was a kind of community in which people lived, tilled the soil, and made their clothes."

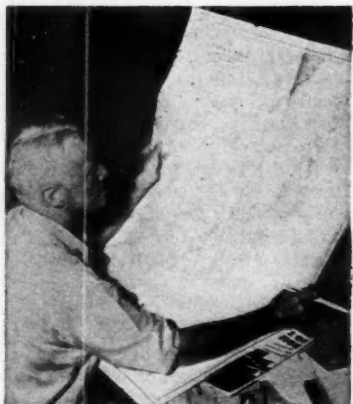
# The Story of the Week

## The War Fronts

As this issue of THE AMERICAN OBSERVER goes to press, the war in Europe has reached a new climactic stage. General Eisenhower's forces in the west are by way of achieving the first major objective of their offensive. The Rhine has been reached on a broad front, with part of the key Ruhr Valley now in our possession. Such key Rhineland cities as Cologne, Düsseldorf, Duisburg, and Bonn are immediately menaced. German radio reports indicate that actual crossings of the Rhine have been attempted in several places.

With the Russians poised on the Oder in the east, and the Americans, Canadians, and British on the Rhine in the west, the way has been cleared for the final assault upon the interior of Germany. General Eisenhower has indicated that the final blow may not be dealt until the Anglo-American armies join hands with the Red armies somewhere on the plains of northern Germany. The Soviets have been bringing up their flanks in the north and south, as a preliminary step in the final drive. Marshal Rokossovsky's forces in the north have reached the Baltic Sea in the region between Stettin and Danzig, thus cutting off large Nazi forces in the Pomeranian and Polish Corridor areas.

The big problem now facing the Allies in the west is the actual crossing of the Rhine with sufficient striking power to overwhelm the Nazis on the east side of the river. The Rhine is a formidable barrier, the most difficult our troops have yet faced in the west. It varies in width from 330 to 545 yards and in depth from five to 75 feet. It is generally believed that the cross-



**PLANNING FUTURE BLOWS.** Admiral of the Fleet Chester W. Nimitz, commander-in-chief of the Pacific, studies the map of Japan at his headquarters in Guam.

ing of the Rhine will be the signal for a gigantic east-west push to reach a final decision in Europe.

## Mexico City Decisions

Congress must take the next step toward giving postwar significance to the decisions reached by United States and Latin American representatives at the recent conference in Mexico City's Chapultepec Castle. The Senate will be called upon to consider our part in the hemisphere guarantees of the Declaration of Chapultepec. Congress as a whole will have the responsibility for appropriating a large portion of the funds needed to implement the far-reaching Economic



**Little by little, food is being sent to the Italian people to relieve their acute suffering. Citizens of Rome watch the unloading of a truckload of flour at a bakery.**

Charter agreed upon by the delegates.

In the Declaration of Chapultepec, the United States promises that for the duration of the war we will give military aid to any American nation resisting aggression by another. This can be effected through the President's war powers, but if we are to continue to guarantee the security of the Latin American countries after the war, a treaty, subject to Senate ratification, will be necessary.

The Economic Charter presents a long-range program for economic cooperation among the Americas. Through it, trade barriers would be reduced, industry would be developed in backward areas, and the standard of living would be raised throughout the hemisphere. Extensive economic cooperation between us and the Latin American nations is possible now through such wartime devices as lend-lease, but in the postwar period it would require special action by Congress.

## Nazi Losses

Germany's approaching downfall is clearly seen in the record of her losses. Besides exacting a heavy toll of men and military equipment, recent defeats have cost her the major sources of raw materials on which her war machine was built. Most observers believe that once existing reserves have been used up, collapse is inevitable.

Here is the record. Since 1944, German coal production has been decreased more than 20 per cent. Steel production is at a third of its 1944 level. With only four synthetic oil refineries operating in the Reich, oil production—upon which hinges the supply of gasoline—has been cut 80 per cent. Territorial losses have deprived the Nazis of one-fourth of their lead, half their copper and zinc, two-thirds of their manganese, three-fourths of the aluminum, four-fifths of their tungsten and nickel, and nine-tenths of their chrome.

To this stupendous handicap must be added the fact that persistent Allied bombing has seriously disrupted communications within Germany. Shattered railways, bridges, and even highways impede what production is still possible. And the people, whose food ration was cut 12½ per cent a few weeks ago, are becoming weak and dispirited.

On both the home front and the mili-

tary front, the shortage of manpower is desperate. The very old and the very young have been recruited to fill factories and military units alike. Militarily, Germany is hard pressed to replace her casualties. On the Russian front alone, she has lost an estimated 9,700,000 men since the beginning of the war—more than 1,150,000 of them in the present Russian drive.

## The Ruhr

One good reason why the Germans put so much of their strength into holding the Siegfried Line in spite of Russian threats to their capital is the Ruhr valley. The little triangle of territory east of the Netherlands where our armies are now fighting is no bigger than the state of Delaware, but it boasts Europe's richest coal fields and is hence supremely important to the Nazi war effort.

The Ruhr coal fields, whose productive capacity has been estimated at 100,000,000 tons annually for the next 500 years, have given rise to some of the greatest industrial cities on the Continent. Even before Hitler started his rearmament program, some 5,000,000 people lived in such cities as Cologne, Essen, Dortmund, Duisburg, and Wuppertal, manufacturing chemicals, steel, textiles, pig iron, and high

octane gasoline. In 1942, 75 per cent of Germany's war production was concentrated in the Ruhr.

Since then, of course, steady bombing has curtailed the production of the Ruhr cities. Many important installations have been moved to Czechoslovakia and Silesia, or reestablished underground. But the Ruhr area still represents the keystone of the German industrial system, and our conquest of it may well be the decisive blow of the war in Europe.

## Report on Yalta

Remembering how, after World War I, Senate rejection of the League of Nations upset Allied plans for a world security system, President Roosevelt has conducted his dealings with other United Nations leaders with an eye to winning Senate support. His recent report on the Crimea conference marks one more step in his campaign to make sure that, unlike Woodrow Wilson, he will be able to send a world security treaty to the Senate with assurance that it will be accepted.

Stressing United States responsibility for world collaboration, the President pleaded for a nonpartisan spirit among our legislators in appraising what the United Nations have done up to now and what they plan to do at the coming San Francisco conference. He reminded his listeners that both Republicans and Democrats—representatives of both parties—would go to San Francisco.

## New Minimum Wage

Under its authority to correct substandard wage schedules, the War Labor Board has paved the way for pay increases affecting some 4,000,000 workers throughout the nation. Its newest order authorizes regional boards to approve wage increases up to 55 cents an hour wherever employers, or employers and unions acting together, request them. In disputed cases, WLB regional boards will grant the 55-cent minimum or less according to local conditions.

This order, which supersedes a WLB order of two years ago placing the floor under industrial wages at 50 cents an hour, is designed to increase production as well as to guarantee work-



**BREAKTHROUGH IN THE WEST.** American, British, and Canadian armies have penetrated large sections of the supposedly "impenetrable" German Siegfried Line in the west. U. S. infantrymen of the 90th Division are shown going through the dragon's teeth and other fortifications which make up the western defense system.



ers a decent standard of living. The industries in which it will have the most important effects include the lumber, textile, meat packing, and fertilizer industries as well as service trades like dry cleaning and retail selling.

The new minimum wage is, however, hedged with guarantees against inflation. In all cases where the increase would raise prices or costs to the government, the approval of Stabilization Director Fred M. Vinson will be required.

### Mexican Water Treaty

The Senate is now considering a treaty which promises to do away with an irritation long disruptive of our relations with Mexico. The treaty would settle an old conflict over water rights, regulating on a permanent

point out that under its terms, Mexico would receive less water than she actually used in 1943 and 1944. Without a treaty, she would be free to take as much as she wanted.

The people of California and Nevada, however, oppose the treaty, charging that it gives Mexico a disproportionate share of the water. While some states, like Texas, will gain through its terms, California will be deprived of a part of her present water supply. Spokesmen from states which would not be affected by the division of water urge acceptance of the treaty on the grounds that it would be important in cementing hemisphere relations at a time when we are particularly eager to promote cooperation with the people of Latin America. (For more about Mexico, see article on page 1.)

### Red Cross Drive

Last year, the American Red Cross collected and sent to the fighting fronts 5,000,000 pints of vitally needed blood plasma. It maintained more than 700 servicemen's clubs in four theaters of war. It sent 10,800,000 food parcels to Americans in enemy prison camps.

These figures represent only a small part of what the Red Cross accomplished in 1944. In addition, it aided wounded servicemen and their families, recruited nurses, made surgical dressings, and carried through a \$100,000,000 program of foreign war relief.

In order to maintain and expand its activities in 1945, the Red Cross hopes to raise a fund of \$200,000,000 by the end of this month. Student contributions to this fund will be used for the maintenance of the Junior Red Cross and the National Children's Fund as well as regular Red Cross activities.

### Dutch Claims on Germany

Although French and Polish demands for German territory are better known at present, the Dutch will present a particularly strong claim to land compensation when postwar boundaries are drawn. Holland's war losses include the use of a large portion of her agricultural land.

As a result of German and Allied bombing of the dikes which protect



**MERCY SHIP.** Supplying prisoners of war with food and other supplies is but one of the many world-wide activities of the American Red Cross. The need for your help is greater during the present drive than ever before.

Dutch land in peacetime, 300,000 acres have been surrendered to the sea. Some of this land can be reclaimed, but all of it has been seriously damaged by salt water. The 45,000-acre island of Walcheren is threatened with permanent extinction unless its dikes can be repaired in the next few months. For most other areas, it is estimated, a minimum of five years' reclamation will be required.

### Brazil Will Vote

Falling in line with the democratic ideas of the United States, Brazil is preparing for her first popular presidential election in 15 years. Some time before the end of May, Brazilians will engage in a political campaign, go to the polls, and elect a President, a Chamber of Deputies, and a Federal Council. Both men and women over 18 will vote. In keeping with his new, democratic policy, President Vargas has lifted the ban on political parties.

The last time Brazil elected a President by direct vote was in 1929. Shortly afterward, Vargas, charging fraud in the electoral process, seized the government. In 1933, the people elected a Constitutional Assembly, which the next year converted itself into a Congress and elected Vargas

President by indirect vote. Since that time, members of municipal councils have been the only popularly elected officials in Brazil. Under Vargas' constitution, state assemblies have been elected by the councils, the Congress by the state assemblies, and the President by the Congress.

It is not yet known whether Vargas will run for office in the coming campaign. Whether he runs or not, however, he is expected to retain a large measure of political power. His control over Brazil has been so rigid that his supporters form the only large, well-organized political group in the country.

### New German Texts

The first step toward the reeducation of Germany has begun in Aachen, where thousands of new German textbooks are being printed under supervision of the Allied military government. These books are based on German texts which were in use before Hitler came into power in 1933 and are thus free of the poisonous ideas fostered by the Nazis. German refugee scholars in the United States are writing new textbooks which will be widely used throughout Germany after the war.



**Marshal Konstantin Rokossovsky**, whose armies have reached the Baltic to trap the Nazi forces in the Danzig and Pomeranian areas.

basis the amount of water each of the two nations may take from the Colorado River and the Rio Grande for use in irrigation and power projects.

Of the eight states directly interested in this treaty, six—Texas, Arizona, New Mexico, Colorado, Utah, and Wyoming—are in favor of it. They

## SMILES

A keen-eyed mountaineer led his overgrown son into a country schoolhouse. "This here boy's after larnin'," he announced. "What's yer bill o'fare?" "Our curriculum, sir," corrected the schoolmaster, "embraces geography, arithmetic, trigonometry."

"That'll do," interrupted the father. "That'll do. Fix him up well with that trigonometry. He's the only poor shot in the family."

Senior: "That new girl in Civics class isn't very bright."  
Junior: "No, she wouldn't make a date with me, either."

Johnnie: "Why were you crying at the picture show?"  
Janie: "Well, wasn't it a moving picture?"

There is nothing a Texan admires like a good fighting man. The proof comes in this report of instructions given by a Texas-born captain to his all-Texan company: "Men, we'll soon be meeting the Russians and fighting side by side with them. It's important that we promote good neighborliness. Even if they say Russia is bigger than Texas, just agree with them!"

The importance of punctuation as used by the caustic drama critic: "The play ended, happily."

"As a matter of fact," said the lawyer for the defendant, trying to be sarcastic, "you were scared half to death, and don't know whether it was a motor car or something resembling a motor car that hit you."

"It resembled one, all right," answered the plaintiff. "In fact, I was forcibly struck by the resemblance."



"Uh—P. S. Please excuse the errors in spelling and punctuation in this letter."

## Questions from the News

1. Why must the world's currencies be relatively stable if foreign trade is to be carried on in great volume?

2. What is meant by foreign exchange?

3. By what means does the Bretton Woods program hope to stabilize currencies and promote world trade?

4. What would be the principal functions of the proposed International Bank for Reconstruction and Development? How would it operate?

5. How does Mexico compare in size with the United States? What is its population?

6. What are some of Mexico's principal economic weaknesses?

7. What is the policy of the Mexican government toward religion?

8. When did the Mexican revolution begin?

9. What are the principal provisions of the treaty with Mexico now under consideration by the United States Senate?

10. How large is the Ruhr? What are its principal products?

11. What two main agreements were drawn up at the Inter-American Conference at Mexico City?

12. What minimum wage figure did the War Labor Board recently agree upon?

### References

"Latin America at Bretton Woods." *The Inter-American*, September, 1944.

"Reconstruction and World Exchange," and "Bretton Woods and After," by Alzada Comstock. *Current History*, August and September 1944.

"Money Talks," in *Business and Finance* section. *Time*, July 10, 1944.

"British Isles and Bretton Woods," by Richard Lee Strout. *The New Republic*, July 3, 1944.

"Mexico, Old and New," by Fritz Henle. *Bulletin of the Pan American Union*, June 1944.

"Mexico and the War," by Harry Sylvester. *The Commonwealth*, June 30, 1944.

"Mexico's President Looks at Us," by Leigh White. *Saturday Evening Post*, December 25, 1943.

### Pronunciations

Chapultepec—chah-pool'teh-pek

Guadalajara—gwah-dah-lah-hah'rah

hacienda—ah-see-en'dah

Rokossovsky—roe-koe-soef'skee

# Bretton Woods Program

FOR several months, a great deal has been heard about the Bretton Woods proposals, and much more will be heard about them in the months ahead. Congress is now debating these proposals and will decide whether or not the United States will accept them. To most people, the mere mention of Bretton Woods conjures up something mysterious, relating in some vague way to international finance.

The Bretton Woods proposals do indeed relate to international finance. They are so called because they were agreed upon last summer at a conference of the United Nations which was held at Bretton Woods, New Hampshire. There representatives of more than 40 nations met for several weeks and drew up plans to promote world trade after the war. It is the plans which these financial experts drew up that Congress is now considering. Before the Bretton Woods proposals can be put into effect the governments of the other United Nations must also give official approval.

## Two Objectives

Technical as the Bretton Woods plan is, its two major objectives are simple enough. First, the experts worked out machinery whereby the currencies of the various nations may be made stable after the war. Secondly, they proposed a program whereby the nations of the world can repair the damage caused by the war and improve the living standards of their people through greater production of goods. Unless these two objectives can be realized, the world is in danger of entering a period of economic chaos when the guns cease firing, with foreign trade at a standstill and production at low levels.

The machinery through which these two objectives would be realized is fairly complicated. The Bretton

different currencies. If you order a book from a French publishing company, for example, you cannot simply put \$1 or \$2 in an envelope and mail the order to Paris. The price will be in French francs, and you must send 20 or 40 francs, or whatever the book costs.

In peacetime, you could go to your bank and buy the required number of francs. Many banks deal in foreign exchange; that is foreign currencies, and it is a relatively easy matter to buy the foreign money you need for your transactions.

## Effect on Trade

It may make little difference to you whether the French franc fluctuates in value because your particular transaction does not involve a great deal of money. Forty francs might cost you a few cents more or less from one week to another, but the sum is not great enough to influence your decision to do business with the French publishing house.

To businessmen in general, however, changes in the value of the French franc means a great deal. It makes a great deal of difference if \$1 will buy 20 francs or 25. To a large New York concern dealing in French dresses or perfumes or other products, changes in the value of the franc could mean hundreds of dollars difference in the cost of the goods. For, it must be remembered, when Americans buy goods from foreigners, they pay for these goods not in dollars but in the currency of the country—francs, or pounds, or rubles, or pesos, and changes in the value of those currencies directly change the cost of goods in dollars.

The same is true of foreigners who buy goods from Americans. They must pay for their purchases in dollars. Thus the Englishmen and Frenchmen and Russians who wish to buy machinery and automobiles and sewing machines and hundreds of other American products must be able to pay for them in dollars.

In order that international trade may be carried on in large volume, the various currencies of the world must be kept fairly stable. No foreigner is going to place an order for American automobiles, to be delivered in six months, let us say, unless he knows how much of his own money it will cost him to buy the required number of dollars. The Englishman wants to know that it will cost him 250 pounds to buy an American automobile costing \$1,000. He will not place the order if he thinks it will cost him 300 or 350 pounds. And that is what he would fear if his own currency and the American dollar were not stabilized.

One of the main reasons why international trade broke down throughout the 1930's was that the currencies of the world were not stable. When most of the world was on the gold standard, their currencies were held at a fixed rate of exchange. This was possible because all the currencies were convertible into gold at a definite price

per ounce, and since they could all be exchanged for gold, they were held at a fixed price in terms of other currencies.

In the 30's, however, nearly every nation abandoned the gold standard with the result that there was no common anchor for the currencies of the world. The result was widespread fluctuation in the value of the different currencies. The English pound, for example, which had been valued at \$4.86 under the gold standard, dropped to \$4 and then to \$3.85. The United States itself left the gold standard in 1933 and the value of the dollar changed from day to day in London and Paris and Rome.

With the world's currencies fluctuating from day to day, it became extremely difficult to carry on international trade. Because the value of money changed so rapidly, the price of goods was never stable, with the result that few business concerns cared to run the risk of buying or selling abroad.

## Monetary Fund

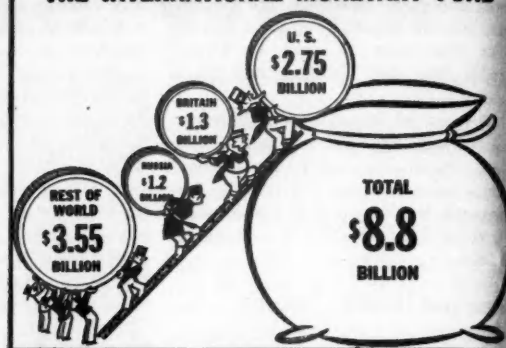
At Bretton Woods, the financial experts of the United Nations agreed upon the International Monetary Fund as the device by which the currencies of the world may be stabilized and kept from fluctuating in value as they did in the prewar years. The plan calls for the setting up of a total fund of \$8.8 billion, made up of contributions of the various members of the United Nations. The chart on this page shows the quotas assigned to the various countries.

Each country would fill its quota by making part of its contribution in gold and part of it in its own currency. The United States would deposit \$687,500,000 in gold and the remaining \$2,062,500,000 in dollars, thus making its total of \$2,750,000,000. Russia would supply \$300,000,000 in gold and \$900,000,000 in rubles. Thus, the International Monetary Fund would be made up of currencies of all kinds as well as of gold.

One of the purposes of the Fund would be to determine the rates at which the various currencies could be exchanged for one another and to keep the currencies from fluctuating in value once the rate was agreed upon. It would also serve as a source of foreign exchange, or foreign currencies. If France, for example, did not have enough dollars to pay for goods she wanted to buy in the United States, she could go to the Fund and borrow the dollars. She would deposit enough francs with the Fund to pay for the dollars at the fixed rate of exchange. When she repaid these dollars, she would withdraw her francs. If the United States needed rubles to pay for purchases in Russia, it could procure them by depositing dollars with the Fund and borrowing the rubles. In this way, it is hoped, the International Monetary Fund would serve the two-fold purpose of anchor for the world's currencies and source of foreign exchange for international trade.

The second proposal agreed upon at Bretton Woods calls for the establish-

## THE INTERNATIONAL MONETARY FUND



ment of an International Bank for Reconstruction and Development, with a total capital of \$9,100,000,000 to be supplied by the various countries on a quota basis (see chart).

## World Bank

The principal function of this world bank would be to make available the funds which will be necessary for reconstruction, for industrialization, and for improving agriculture throughout the world; in other words, funds needed to increase production and improve living standards.

The bank itself would make direct loans only in cases where credit could not be obtained from other sources. In all cases, it would try to induce private lenders, such as banks and other investors, to supply the funds. It would guarantee these loans, thus reducing the risks of loss.

In considering loans, the world bank would adhere to sound banking principles. It would investigate the soundness of the project for which the money was to be advanced. In the case of a private borrower, it would require the government of the country to guarantee the loan. Loans would be granted for such things as factories, railroads, dams, agricultural improvements, and other ventures designed to increase the borrowing country's productive facilities.

It is emphasized that loans will be granted only for productive purposes; that is, for the purpose of helping the countries strengthen their economic positions and recover from the ravages of war. The principal test will be whether the loans will raise production and hence improve living standards.

As the debates proceed in Congress on the Bretton Woods plan for an international fund and for a world bank, considerable opposition will be voiced to the entire venture. It will be argued that the United States will have to contribute the largest single sum to both the Fund and the Bank and hence will have to bear the lion's share of financial responsibility for the reconstruction of Europe. Already, it is being argued that we are planning to embark upon a world WPA project for which we will receive little, if anything in return.

Supporters of the Bretton Woods proposals reply that this will be a small price to pay for world recovery. They point out that we will have spent over \$300,000,000,000 to win the war, and that this gigantic expenditure will have been spent largely in vain unless we cooperate to prevent economic chaos throughout the world. Without world financial stability, they argue, the United States will suffer along with the other nations, for our future prosperity depends upon increased foreign trade and improved living conditions everywhere.



CHARTS REPRINTED FROM THE UNITED STATES NEWS, AN INDEPENDENT WEEKLY MAGAZINE ON NATIONAL AFFAIRS, PUBLISHED IN WASHINGTON, D. C.

Woods plan calls for the establishment of two international organizations to carry out the proposals. The first would be an International Monetary Fund whose principal purpose would be to keep the currencies of the different countries fairly stable. The second organization is an international bank, to be called the International Bank for Reconstruction and Development. The latter would provide the credit, through loans, with which to finance reconstruction programs and increase production of all kinds.

Before examining the proposal to establish an International Fund, we must understand the way foreign trade is carried on. Unlike trade within a single country, where one monetary system is in effect, foreign commerce must be handled through scores of





for Ro-  
with a  
to be  
ies on

world  
ble the  
for re-  
on, and  
ighout  
funds  
nd in-

direct  
could  
es. In  
ce pri-  
other  
la. It  
aus re-

d bank  
r prin-  
sound-  
money  
se of a  
require  
o guar-  
ld be  
tories,  
prove-  
signed  
untry's

will be  
poses;  
ng the  
onomic  
avages  
will be  
oroduc-  
stand-

ngress  
an in-  
l bank.  
voiced  
argued  
ave to  
sum is  
l hence  
are of  
recon-  
it in  
ning to  
ect for  
f any-

Wood  
a small  
They  
at over  
ar, and  
e will  
unles  
c chaos  
t world  
e, the  
g with  
e pres-  
foreign  
ditions